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E.O. 11652: N/A
TAGS: ENRG, ETRD, CA
SUBJECT: ENERGY: NATURAL GAS SITUATION IN CANADA

PASS WHITE HOUSE/SCHLESINGER, FPC AND FEA

1. SUMMARY. (NOTE: DATA FROM INDUSTRY SOURCES SHOULD NOT REPEAT NOT BE ATTRIBUTED TO INDIVIDUAL FIRMS.)

A. INDUSTRY AND GOVERNMENT SOURCES HAVE PROVIDED FOLLOWING INFORMATION REGARDING NATURAL GAS SITUATION IN CANADA. PRODUCTION IN 1977 WILL PROBABLY BE 2.5 TRILLION CUBIC FEET (TCF) OR SLIGHTLY BETTER. ESTIMATES RANGE FROM 2.45 TO 2.66 TCF. INCREASED SHIPMENTS TO U.S. DURING ENERGY CRISIS ARE CITED AS REASON FOR INCREASE OVER 1976 PRODUCTION WHICH WAS 2.45 TCF.

B. RESERVE ESTIMATES FOR CONVENTIONAL PRODUCTION AREAS (ESSENTIALLY ALBERTA AND BRITISH COLUMBIA) RANGE FROM A HIGH OF 71.9 TCF BY GULF OIL TO A LOW OF 52.5 TCF BY ALBERTA ENERGY RESOURCES CONSERVATION BOARD (ERCB).
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DEPARTMENT OF ENERGY, MINES AND RESOURCES (EMR) AND NATIONAL ENERGY BOARD (NEB) ESTIMATE CONVENTWONAL RESERVES TO BE 60 TCF. EMR AND NEB ESTIMATE THAT ADDITIONS TO CONVENTIONAL RESERVES THROUGH 1990 WILL BE ABOUT 20 TCF. INDUSRY ESIMATES RUN HIGHER TO 31.7 TCF. SOURCES GENERALLY AGREE THAT MACKENZIE DELTA-BEAUFORT SEA PROVED RESERVES ARE ABOUT 6 TCF,ARCTIC ISLAND RESERVES ARE 15

TCF AND RESERVES OFF EAST COAST ARE ONE TCF OR LESS.

C. RECENT CLAIM BY ALBERTA GAS TRUNK LINE (AGTL) THAT THERE IS 20 TCF OF UNCONNECTED GAS IN ALBERTA IS MISLEADING. ESTIMATE INCLUDES GAS RESERVES NOT ACCESSIBLE AT CURRENT PRICES. CLAIM APPEARS TO BE PLOY BY AGTL TO PROMOTE ITS ALCAN PIPELINE PROPOSAL WHICH WOULD NOT TRANSPORT CANADIAN FRONTIER GAS UNTIL SPUR TO MACKENZIE DELTA IS BUILT AT SOME LATER UNDETERMINED DATE.
D. SOURCES GENERALLY AGREE THAT PRODUCTION FROM CONVENTIONAL AREAS WILL MEET DOMESTIC CANADIAN DEMAND AND EXPORT COMMITMENTS UNTIL THE MID-1980'S WHEN SUPPLY WILL FALL SHORT OF DEMAND. SHORTFALL MUST THEN BE RESOLVED BY BRINGING IN MACKENZIE VALLEY/BEAUFORT SEA AND/OR HIGH ARCTIC, OR BY CUTTING BACK EXPORTS TO U.S. CURRENT SURPLUS OF GAS IN WESTERN CANADA COMBINED WITH ITS HIGH PRICE AND SHRINKING SHARE IN ENERGY MARKET IS CAUSING PROBLEM FOR SMALL PRODUCERS. GOC OFFICIALS WOULD LIKE TO SEE GAS MARKET EXPANSION IN ORDER TO REPLACE FOREIGN OIL.

E. GAS SURPLUS, HOWEVER, IS NOT VIEWED BY GOC OFFICIALS AS REASON FOR RULING AGAINST A PIPELINE FROM THE MACKENZIE DELTA. THEY BELIEVE SURPLUS IS SHORT-TERM AND THAT CANADA WILL NEED INCREASING AMOUNTS OF GAS, EVEN MODEST RESERVES PROVED SO FAR IN MACKENZIE DELTA REGION, IN ORDER TO DIMINISH RELIANCE ON FOREIGN OIL IMPORTS. QUESTION BEFORE GOC, THEN, IS NOT WHETHER TO BUILD A PIPELINE TO BRING DOWN MACKENZIE DELTA GAS, BUT
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WHICH OPTION TO CHOOSE -- THE ARCTIC PROJECT, THE ALCAN PROJECT WITH A SPUR TO THE MACKENZIE DELTA LATER, OR AN ALL-CANADIAN LINE TO THE MACKENZIE DELTA AT SOME UNSPECIFIED FUTURE DATE. END SUMMARY.

2. EMBASSY AND CONSUL GENERAL CALGARY HAVE JUST COMPLETED A REVIEW OF NATURAL GAS SITUATION IN CANADA. REVIEW BASED ON DISCUSSIONS IN CALGARY WITH OFFICIALS OF THE ERCB, THE INDEPENDENT PETROLEUM ASSOCIATION OF CANADA (IPAC), THE CANADIAN PETROLEUM ASSOCIATION (CPA), AND OFFICIALS OF SEVERAL FIRMS IN THE INDUSTRY AND IN OTTAWA WITH EMR AND NEB OFFICIALS. PARAGRAPHS BELOW OUTLINE INFORMATION DEVELOPED FROM THESE SOURCES COVERING FOUR BASIC TOPICS: CURRENT PRODUCTION, GAS RESERVES, DEMAND FORECASTS, SUPPLY/DEMAND BALANCE FORECASTS, AND THE CURRENT GAS PROBLEM. INFORMATION SUPPLIED BY INDUSTRY IS BASED ON STUDIES COMPLETED IN LATE 1976 AND 1977. EMR AND NEB ANALYSES WERE COMPLETED IN 1976 AND 1975, RESPECTIVELY.

3. CURRENT PRODUCTION:

A. CANADIAN NATURAL GAS PRODUCTION WAS ABOUT 2.45 TCF IN 1976. OILWEEK PREDICTS THAT 1977 PRODUCTION WILL REMAIN AT THIS LEVEL, BUT CONSUL GENERAL CALGARY BELIEVES IT WILL INCREASE TO ABOUT 2.5 TCF, LARGELY BECAUSE OF EMERGENCY GAS SHIPMENTS TO THE UNITED STATES AND ONGOING EFFORTS TO BRING WESTCOAST TRANSMISSION COMPANY'S GAS EXPORTS UP TO THEIR AUTHORIZED LEVEL.

B. GULF ESTIMATES CANADA'S 1977 GAS SUPPLY AT 2.56 TCF

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WHILE MOBIL AND IMPERIAL'S GAS SUPPLY PROJECTIONS FOR 1977 ARE 2.49 AND 2.66 TCF, RESPECTIVELY.

C. ERCB OFFICIALS SAY THAT ALBERTA'S GAS PRODUCTION COULD BE EXPANDED OVER THE NEXT NINE MONTHS BY SOME 200 TO 500 MILLION CUBIC FEET (MMCF) PER DAY AND, IF REALIZED, THIS WOULD RESULT IN A 1977 PRODUCTION RATE OF 2.5 TO 2.6 TCF. (FOOTHILLS PIPELINE HAS PUT THE POTENTIAL ADDITIONS TO GAS PRODUCTION OVER THE NEXT 18 MONTHS AT 400 MMCF TO ONE BILLION CUBIC FEET (BCF) A DAY). SUCH AN INCREASE IN GAS PRODUCTION WOULD REQUIRE CONSTRUCTION OF FACILITIES TO BRING MORE GAS FROM ALBERTA TO BRITISH COLUMBIA AND A GREATER EFFORT TO EXPAND GAS MARKETS IN ONTARIO AND QUEBEC. TO BE SUCCESS-

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

FUL SUCH A MARKETING EFFORT WOULD SEEM TO NECESSITATE MOVING CANADIAN OIL PRICES TO WORLD-PRICE LEVELS AT AN ACCELERATED PACE. PAN ALBERTA IS SEEKING TO BUILD A LINK INTO THE WESTCOAST GAS TRANSMISSION CO. SYSTEM, AND B.C. GAS PRODUCERS ALSO WANT TO SUPPLY ADDITIONAL GAS TO WESTCOAST.

D. EMR OFFICIALS TOLD EMBOFF THAT THEY BELIEVE 1977 PRODUCTION WILL BE SLIGHTLY HIGHER THAN IN 1976, PROBABLY 2.5 TCF. THEY SUPPORT VIEW THAT SURPLUS OF GAS IS AVAILABLE IN ALBERTA AND PRODUCTION WILL BE INCREASED SLIGHTLY ABOVE LAST YEAR'S LEVEL TO MEET INCREASED DEMAND STIMULATED BY U.S. ENERGY CRISIS. PIPELINES WILL BE KEPT FULL AND LEVEL OF PRODUCTION, ACCORDING TO EMR SOURCES, WILL BE SIMPLY A FUNCTION OF LINE CAPACITY.

E. NEB PROVIDED NO RECENT ESTIMATES OF 1977 PRODUCTION. LATEST PUBLISHED ESTIMATE IS GIVEN IN BOARD'S APRIL 1975 REPORT WHICH FORECASTS 1977 PRODUCTION AT 2.6 BCF.

4. GAS RESERVES:

A. AS OF DECEMBER 31, 1976 THE ESTIMATED PROVED ULTIMATE GAS RESERVE SITUATION IN THE CONVENTIONAL AREAS OF CANADA WAS, ACCORDING TO INFORMATION PROVIDED THE NEB BY GULF OIL COMPANY, AS FOLLOWS (SHOWN IN BCF). BRITISH COLUMBIA - 10,200; ALBERTA - 69,200; SASKATCHEWAN - 1,750; EASTERN CANADA - 920. GULF FORE-CASTS THAT AN ADDITIONAL 31.7 TCF OF NATURAL GAS WILL BE ADDED TO THESE RESERVES BETWEEN NOW AND 1990, WITH THE VAST BULK OF THE RESERVE ADDITIONS (ADDITIONAL SUPPLY FROM EXISTING POOLS AND NEW DISCOVERIES) COMING FROM ALBERTA (CIRCA 25 TCF) AND BRITISH COLUMBIA (CIRCA 6 TCF).

B. MOBIL HAS A VERY SIMILAR ESTIMATE OF POTENTIAL ADDITIONS TO CANADA'S GAS SUPPLY.

C. THE ERCB, WHICH IS GENERALLY VERY CONSERVATIVE IN ITS ESTIMATES, CALCULATES THAT ALBERTA HAD MARKETABLE GAS RESERVES AS OF DECEMBER 31, 1976 OF 52.6 TRILLION CUBIC FEET. THE ERCB ESTIMATE SHOWS 33 TCF OF GAS CURRENTLY CONNECTED TO EXISTING GAS DELIVERY SYSTEMS AND ANOTHER 19 TCF IN THE "PROVEN RESERVE" CATEGORY.

ABOUT 10 TCF OF THESE "PROVEN RESERVES" ARE IN SMALLER GAS STRUCTURES FOR WHICH THERE ARE FEW FULLY RELIABLE PRODUCIBILITY ESTIMATES. IN ADDITION, SOME OF THESE SMALLER DEPOSITS CANNOT BE BROUGHT TO MARKET AT PRESENT PRICES. THE REMAINING "PROVEN RESERVES" (8 TO 9 TCF) COULD BE BROUGHT ON STREAM OVER THE NEXT TWO OR THREE YEAR PERIOD IF MARKET DEMAND WARRANTS THE REQUIRED INVESTMENT IN PIPELINES AND GAS PLANTS. ERCB OFFICIALS BELIEVE THAT ANOTHER 19 TCF OF NEW GAS WILL BE "DIS- COVERED" IN ALBERTA OVER THE NEXT 10 TO 13 YEAR PERIOD, WITH THE RATE OF ADDITIONS TO SUPPLY KEEPING MORE OR LESS PACE WITH GAS PRODUCTION UNTIL 1980 AND THEREAFTER DECLINING AT A MEASURED BUT FAIRLY RAPID RATE.

D. EMR ESTIMATES THAT PROVED RESERVES IN CONVENTIONAL AREAS (WESTERN CANADA INCLUDING B.C.) ARE 60 TCF, AND THAT ADDITIONAL RESERVES (TREND GAS) WILL BE FOUND AT A RATE OF 1.5 TCF PER YEAR UNTIL 1990. EMR OFFICIALS NOW SAY THAT COMPUTER MODEL ANALYSIS ON WHICH THIS FINDING WAS BASED IS TOO CONSERVATIVE. PRESENT HIGH LEVEL OF EXPLORATION PRODUCED 3 TCF OF TREND GAS LAST YEAR. FOR THE SHORT-TERM NEW RESERVES WILL BE ADDED AT RATE OF 2 TCF PER YEAR. TREND GAS ESTIMATES SHOULD BE "LOADED AT FRONT END," SO EMR ESTIMATES THAT TOTAL ADDITION TO RESERVES IN CONVENTIONAL AREAS BETWEEN NOW AND 1990 WILL BE SOMETHING BETWEEN 20 AND 22 TCF. EMR HAS NOT ANALYZED ADDITIONS TO RESERVES IN FRONTIER AREAS. EMR STAFFERS SUPPORT FOLLOWING RESERVE ESTIMATES: BEAUFORT SEA/MACKENZIE DELTA - 5 TCF, PROVED AND 2 TCF, PROBABLE; ARCTIC ISLANDS 15 TCF, PROVED; EAST COAST - LESS THAN 1 TCF, PROVED.

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E. NEB AND EMR AGREE ON 60 TCF RESERVES ESTIMATE FOR CONVENTIONAL PRODUCING AREAS. THIS NUMBER WAS DEVELOPED BY NEB STAFF AND WILL BE USED BY BOARD AND GOC IN EVALUATING PROPOSED MACKENZIE VALLEY PIPELINE PROJECT. REGARDING CONTROVERSY OVER WESTERN CANADIAN RESERVE LEVELS, WHICH WILL HAVE BEARING ON PIPELINE DECISION, NEB SOURCE SAYS AGTL CLAIM THAT THERE IS 20 TCF OF UNCONNECTED GAS IN CONVENTIONAL PRODUCING AREAS IS MIS-LEADING. SOURCE SAID NEB INCLUDES THIS 20 TCF IN ITS 60 TCF ESTIMATE. PART OF THE 20 TCF IS APPARENTLY THE 8 OR 9 TCF OF CONNECTABLE RESERVES IDENTIFIED BY THE ERCB AND THE REMAINDER IS COMPOSED OF YET-TO-BE FOUND OR DEVELOPED DEPOSITS. MUCH OF THIS IS SHALLOW GAS LOCATED IN AREAS OF LOW DELIVERABILITY SUCH AS MILK RIVER FIELD. MOREOVER, SOURCE SAID, AGTL CLAIM DOES NOT ACCOUNT FOR GAS PRICE LEVEL. RESERVES IN QUESTION ARE NOT WITHIN ECONOMIC REACH AT PRESENT PRICES. CANADIAN PRICE, NOW 85 PERCENT PARITY WITH DOMESTIC OIL PRICE, WOULD HAVE TO RISE TO 100 PERCENT OF PARITY TO BRING THIS GAS TO MARKET. IMPLICATION OF THESE COMMENTS IS THAT AGTL CLAIM
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IS SELF-SERVING ATTEMPT TO CONVINCE CANADIANS THAT THEY DON'T NEED MACKENZIE DELTA GAS NOW AND SHOULD THEREFORE SUPPORT THE AGTL SPONSORED ALCAN PROJECT WHICH WOULD NOT TRANSPORT CANADIAN GAS UNTIL A SPUR IS BUILT. NEB ESTIMATES TREND GAS WILL ADD 1.5 TO 2 TCF TO CONVENTIONAL PRODUCING AREA RESERVES UNTIL 1990. BOARD ESTIMATES THAT PROVED RESERVES ARE 6.5 TCF IN BEAUFORT SEA/MACKENZIE DELTA AREA, 15 TCF IN THE ARCTIC ISLANDS AND ABOUT ONE TCF ON EAST COAST.
5. DEMAND:

A. GROWTH IN DEMAND FOR CANADIAN NATURAL GAS HAS DECLINED IN RECENT YEARS. GULF STATISTICS SHOW THAT ANNUAL DEMAND GROWTH FOR 1965 WAS 14 PERCENT. IN 1970 DEMAND GROWTH HAD DECLINED TO 9 PERCENT, AND BY 1975 IT HAD DROPPED TO 1 PERCENT. EXTREMELY LOW GROWTH IN 1975 WAS DUE TO A RECESSION THAT YEAR, BUT DEMAND GROWTH IN 1974 WAS ONLY 7 PERCENT. PROJECTIONS BY GULF SHOW THAT ANNUAL DEMAND GROWTH WILL RISE AGAIN TO PEAK OF ABOUT 7 PERCENT IN THE MID-1980'S THEN FALL OFF SHARPLY TO A LEVEL OF 2 TO 3 PERCENT THROUGH 1995.

B. SOURCES AT EMR SAY THAT DECLINE IN DEMAND FOR NATURAL GAS IS DUE TO TWO FACTORS:
(1) GAS PRICE ROSE RAPIDLY BETWEEN 1974 AND 1976 WHEN IT REACHED ITS PRESENT LEVEL OF 85 PERCENT OF PARITY WITH DOMESTIC OIL PRICES.
(2) TRANSPORTATION COMPANIES (PARTICULARLY TRANSCANADA PIPELINES) ARE VERY WORRIED ABOUT SECURITY OF SUPPLY OVER THE LONG-TERM. THEY BELIEVE THEY CANNOT SATISFY LONG-TERM FUTURE COMMITMENTS FROM SOURCES IN ALBERTA, SASKATCHEWAN AND BRITISH COLUMBIA AND ARE THEREFORE VERY RELUCTANT TO EXTEND SERVICE INTO NEW MARKETS. UNCERTAINTY REGARDING LONG-TERM FUTURE SUPPLIES OF GAS CREATES RISK THAT NEW TRANSPORTATION FACILITIES MIGHT NOT HAVE ENOUGH GAS IN THEM TEN YEARS HENCE TO AMORTIZE THEIR COST OF

CONSTRUCTION. APPARENT ANOMALY OF SHORT-TERM SURPLUS IS A TEMPORARY PHENOMENA RESULTING FROM HIGH PRICES AND A HIGH NETBACK TO PRODUCERS WHICH STIMULATED A SPURT OF DRILLING IN SHALLOW GAS FIELDS. IT WILL NOT ALTER TRANS-CANADA'S CONCERN ABOUT SECURITY OF SUPPLY.

C. SOURCES IN INDUSTRY AND AT EMR AND NEB AGREE ON BASIC ELEMENTS OF A LONG-TERM DEMAND FORECAST FOR CANADIAN NATURAL GAS. THEIR FORECASTS INDICATE THAT DEMAND GROWTH FOR NATURAL GAS WILL MODERATE OVER A PERIOD FROM PRESENT TO 1995 DUE TO SLOWDOWN IN POPULATION GROWTH AND GROWING IMPACT OF CONSERVATION MEASURES AND PRICE INCREASES. FORECASTS ALSO SHOW THAT DEMAND GROWTH WILL CONTINUE TO BE RELATED TO THE SECURITY OF NATURAL GAS SUPPLIES AND WILL INCREASE IN RESPONSE TO PRODUCTION FROM THE MACKENZIE DELTA AND OTHER FRONTIER AREAS.
D. NONE OF THESE FORECASTS TAKES RECENT SEVERE WEATHER PATTERNS INTO ACCOUNT. WEATHER PATTERNS ARE NOT BEING CONSIDERED IN LONG-TERM FORECASTS NOW IN PROGRESS AT ENERGY, MINES AND RESOURCES.

E. THE RESULTS OF THESE DEMAND FORECASTS ARE SUMMARIZED AT THE END OF THE FOLLOWING PARAGRAPH ON SUPPLY/DEMAND BALANCES.

6. SUPPLY/DEMAND RELATIONSHIP:

A. UNOFFICIAL ERCB FORECASTS HAVE CANADIAN GAS PRODUCTION MEETING BOTH FOREIGN AND DOMESTIC DEMAND UNTIL 1983.

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B. IMPERIAL'S PROJECTIONS HAVE GAS SUPPLY MORE OR LESS MEETING GAS DEMAND THROUGH 1980 WHEN, UNLESS MACKENZIE DELTA GAS BECOMES AVAILABLE, THERE BEGINS TO DEVELOP A SUPPLY SHORTFALL WHICH WOULD REACH SERIOUS PROPORTIONS BY 1983. GULF AND MOBIL HAVE SUPPLIES FROM CONVENTIONAL AREAS MEETING DOMESTIC DEMANDS AND MOST EXPORT COMMIT-MENTS UNTIL 1984-85, AT WHICH POINT SUPPLY BEGINS TO FALL SIGNIFICANTLY SHORT OF DEMAND.

C. ALL REPEAT ALL INDUSTRY OFFICIALS SAY THERE WILL BE A SUPPLY SHORTFALL IN THE 1980'S WHICH THEY SEE BEING RESOLVED BY CUTBACKS IN EXPORTS TO THE UNITED STATES. ALL
OF THESE FR--, ,,, TIER GAS IS UNAVAILABLE.
OF THESE FORECASTS ASSUME FRONTIER GAS IS UNAVAILABLE.

D. EMR SUPPLY/DEMAND ESTIMATES ARE BASED ON COMPUTER MODEL ANALYSIS DONE FOR DEPARTMENT BY D & S PETROLEUM CONSULTANTS IN CALGARY. STUDY USED NEB RESERVE ESTIMATES AND DEMAND PROJECTIONS DEVELOPED BY EMR ITSELF. RESULTS PUBLISHED IN 1976 BY EMR IN AN ENERGY STRATEGY FOR CANADA. THIS ANALYSIS, BASED ON ASSUMPTION THAT NATURAL
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GAS PRICE WILL INCREASE TO WORLD OIL PRICE BY LATE 1970'S SHOWS A GROWING SUPPLY SHORTFALL THAT WILL CUT INTO EXPORTS AS EARLY AS 1980. SHORTFALL AND RESULTANT EXPORT CUTBACKS CANNOT BE ELIMINATED UNLESS FRONTIER PRODUCTION IS BROUGHT TO MARKET. PRESUMABLY THIS WILL NOT OCCUR UNTIL THE EARLY-TO-MID-1980'S.

E. NEB OFFICIALS WERE UNWILLING TO DISCUSS BOARD'S CURRENT STATISTICAL ESTIMATE OF GAS SUPPLY/DEMAND WITH EMBOFF. ONE STAFF MEMBER WOULD TALK IN GENERAL TERMS ABOUT SITUATION, BUT POTENTIAL SOURCE WITH ACCESS TO HARD NUMBERS WOULD NOT REVEAL THEM. BOARD MEMBERS AND STAFF CURRENTLY REVIEWING GAS SUPPLY/DEMAND AS IT BEARS ON BOARD'S RECOMMENDATION CONCERNING MACKENZIE VALLEY PIPELINE DECISION AND ARE THEREFORE UNWILLING TO PREJUDICE CONFIDENTIALITY OF THEIR DELIBERATIONS ON THIS POLITICALLY VERY SENSITIVE ISSUE. NEB OFFICIAL SAID, HOWEVER, THAT BOARD'S OFFICIAL SUPPLY/DEMAND ESTIMATES WOULD PROBABLY NOT DEVIATE SIGNIFICANTLY FROM ITS APRIL, 1975 REPORT, "CANADIAN NATURAL GAS: SUPPLY AND REQUIRE-MENTS." NEB ANALYSIS OF SUPPLY/DEMAND BALANCE ALSO SHOWS SIGNIFICANT SHORTFALL BY 1980 AND THAT FRONTIER PRODUCTION WILL HAVE TO BE BROUGHT ON STREAM IN ORDER TO PROVIDE SURPLUS FOR EXPORT.

F. A SYNOPSIS OF THE GAS SUPPLY/DEMAND BALANCE AS SEEN BY IMPERIAL, GULF, MOBIL, EMR AND NEB IS OUTLINED BELOW. MORE DETAILED GAS SUPPLY AND DEMAND PROJECTIONS FURNISHED BY INDUSTRY SOURCES WILL BE POUCHED TO EB/ORF/FSE. FIGURES ARE IN BCF:

COMPANY OR GOC AGENCY	SUPPLY	DEMAND(C)
IMPERIAL	2580 (3480(A))	3428
GULF	2817 (3237(A))	3354
MOBIL	2822 (3772(A))	3772
EMR	2350 (4500(B))	3200
NEB	2200 (5100(B))	3800

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NOTE: (A) PRESUMES COMPLETION OF MACKENZIE DELTA PIPELINE
(B) INCLUDES FRONTIER AREA PRODUCTION -- BEAUFORT SEA/MACKENZIE DELTA, ARCTIC ISLANDS AND EAST COAST
(C) DEMAND FIGURES INCLUDE EXPORTS

NOTE: EMR OFFICIALS SAY THAT DIFFERENCE BETWEEN THEIR SUPPLY/DEMAND PROJECTION AND NEB NUMBERS IS RESULT OF NEB ASSUMPTION THAT GAS DEMAND WOULD CONTINUE TO GROW AT HIGH RATE. HOWEVER, DEMAND LEVELED OFF DURING 1974-1975, AND NOW GAS AT 85 PERCENT OF PARITY WITH DOMESTIC

CRUDE OIL PRICE JUST COMPETES IN TORONTO MARKET WITH HEAVY FUEL OIL SOLD AT SUBSIDIZED PRICES. LATER EMR STUDY REFLECTS THIS PLATEAU IN GAS DEMAND.

7. CURRENT GAS PROBLEM:

A. THE CANADIAN DRILLING INDUSTRY ENJOYED A RECORD YEAR IN 1976 AND WELL COMPLETIONS IN ALBERTA AND BRITISH COLUMBIA SHOULD INCREASE BY ANOTHER FIVE TO TEN PERCENT IN 1977. THE SUCCESS RATIO ON WELL COMPLETIONS WAS A VERY HIGH 76 PERCENT IN 1976, BUT THESE NEW ADDITIONS TO SUPPLY UNFORTUNATELY CAME AT A TIME WHEN GAS CONTRACTING IN ALBERTA HAD BEEN VIRTUALLY SUSPENDED. THE MAJOR GAS PURCHASERS ARE NOT NOW WILLING TO TAKE ADDITIONAL GAS UNTIL LATE 1978 OR 1979, AND THIS IS CREATING DIFFICULT FINANCIAL PROBLEMS FOR THE INDEPENDENT PRODUCERS WHO NEED A CONTINUOUS CASH FLOW TO MEET THEIR CREDIT COMMITMENTS.

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B. IPAC HAS BEEN LOBBYING IN OTTAWA FOR INCREASED EXPORTS TO THE UNITED STATES, BUT UP UNTIL THE RECENT ENERGY CRISIS IT APPARENTLY HAD HAD LITTLE SUCCESS. INDUSTRY SOURCES SAY THERE WILL BE PRESSURE ON THE NEB TO EXPAND THE TIME FRAME OF THE PRESENTLY AUTHORIZED "EMERGENCY" GAS SHIPMENTS SO AS TO PERMIT A BUILD-UP

OF U.S. GAS STOCKS, BUT NO ONE IN CALGARY KNOWS HOW OTTAWA WILL REACT TO THIS PROPOSAL. THERE IS ALSO DISCUSSION IN THE GAS INDUSTRY ABOUT ASKING THE NEB TO AUTHORIZE LARGER GAS SHIPMENTS TO THE U.S. NOW WITH THE UNDERSTANDING THAT SUCH GAS DELIVERIES WOULD BE SUBTRACTED FROM FUTURE EXPORTS TO THE U.S. A RELIABLE IPAC SOURCE SAID THAT THE NEB HAD BEEN PREVIOUSLY COOL TO THE IDEA OF MAKING DELIVERIES TO THE U.S. NOW IN RETURN FOR FUTURE U.S. GAS UPPLY COMMIT- MENTS, SINCE THE AMERICANS COULD NOT BE RELIED UPON TO DELIVER GAS TO CANADA AT SOME FUTURE DATE IF THERE WERE ENERGY PROBLEMS IN THE UNITED STATES.

C. THERE IS SOME SENTIMENT IN THE ALBERTA MINISTRY OF ENERGY FOR STRICTLY LIMITING THE EXPANSION OF ALBERTA'S

GAS PRODUCTION, BUT INDEPENDENT OILMEN ARE A VERY POTENT POLITICAL FORCE IN PROVINCE, AND CONSUL GENERAL CALGARY BELIEVES THAT THEY WILL SOMEHOW ARRANGE TO HAVE THEIR INTERESTS ACCOMMODATED. THE CPA, FOR EXAMPLE, IS TALKING ABOUT A GAS ALLOCATION SYSTEM AND SOME OF THE BIGGER INDEPENDENTS ARE PREDICTING THAT THE PRESENT GAS MARKET WILL SOMEHOW HAVE TO BE SHARED WITH THE NEW PRODUCERS. THIS WILL, IN THEIR VIEW, CAUSE A REDUCTION IN NEW GAS EXPLORATION AND DEVELOPMENT AND, WHILE A DRILLING CUTBACK MIGHT CURE THE PRESENT ILLS OF SMALLER PRODUCERS IN THE GAS INDUSTRY, IT WOULD ALSO, IN THE OPINION OF EXPERIENCED OBSERVERS IN CALGARY COMPLICATE THE PROBLEM OF ASSURING GAS DELIVERIES IN THE 1980'S. "ONCE THE DRILLS ARE GONE, IT'S HARD TO GET THEM BACK AGAIN."

D. EMR AND NEB SOURCES DOUBT THAT GOVERNMENT OF ALBERTA WILL ALLOW DECLINE IN SALES CONTRACTING TO REACH POINT WHERE SQUEEZE ON SMALL PRODUCERS WILL RESULT IN DISTRESS SELLING OF GAS. PROVINCE WOULD STEP IN WITH PRO-RATED PRODUCTION SCHEME TO PREVENT IT. VIEW IN BOTH GOC ENERGY AGENCIES SEEMS TO BE THAT THIS POTENTIAL CONSTRICTION OF DEMAND FOR GAS SHOULD BE ELIMINATED. GAS SHOULD BE ALLOWED TO TAKE OVER AN EXPANDING SHARE OF ENERGY MARKET AND REPLACE LARGER SHARE NOW HELD BY IMPORTED OIL. ALBERTA THEREFORE MUST MODERATE ITS DEMANDS FOR HIGHER GAS PRICES. OTHERWISE, MARKET FOR GAS WILL CONTINUE TO SHRINK AND PRODUCTION, AT LEAST OVER SHORT TERM, WILL HAVE TO BE SHUT IN.

E. GOVERNMENT SOURCES AGREE THAT NEED TO EXPAND NATURAL GAS SHARE OF CANADIAN ENERGY CONSUMPTION WILL ALSO

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REQUIRE THAT CANADA BUILD A TRANSPORTATION SYSTEM TO
BRING GAS TO DOMESTIC MARKETS FROM FRONTIER SOURCES.
CANADA WILL EVENTUALLY NEED ALL OF ITS NATURAL GAS
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RESERVES, EVEN MODEST RESERVES SO FAR PROVED IN
MACKENZIE DELTA, IN ORDER TO REDUCE CONSUMPTION OF
FOREIGN OIL TO ACCEPTABLE LEVEL. QUESTION GOC POLICY-
MAKERS SAY THEY MUST FACE, THEN, IS NOT WHETHER TO BUILD
A LINE FROM THE MACKENZIE DELTA, BUT WHEN TO BUILD SUCH
A LINE AND OVER WHAT ROUTE. THE ARCTIC GAS PROJECT
PRESENTS AN OPPORTUNITY TO CONNECT THESE RESERVES TO THE
CANADIAN MARKET AT LOWER FINANCIAL COST BUT AT HIGHER
SOCIAL, ENVIRONMENTAL AND POLITICAL COST AND BEFORE
THE GAS WILL BE NEEDED FOR DOMESTIC USE. THE ALTERNA-
TIVES, THE ALCAN PROJECT WITH A SPUR TO THE DELTA TO BE
CONSTRUCTED LATER OR AN ALL-CANADIAN LINE, WOULD INCREASE
THE COST OF DELIVERED GAS BUT WOULD ENTAIL FEWER SOCIAL
AND POLITICAL PROBLEMS AND WOULD SYNCHRONIZE DELIVERY
AND DOMESTIC DEMAND. LEARY

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